The Marine Corps Business Enterprise and the Emerging Leadership Role of the Financial Executive

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Outline

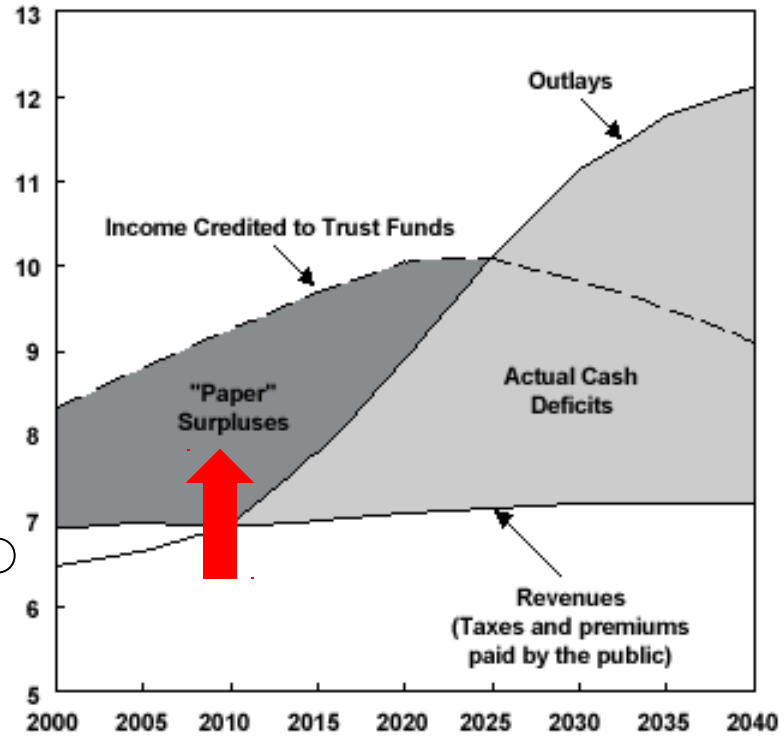
- Key trends
- Marine Corps Business Enterprise
- Implications for Financial Management

Key Trends

The Biggest Reason we MUST Learn to Manage for Results: Competition for Federal $$

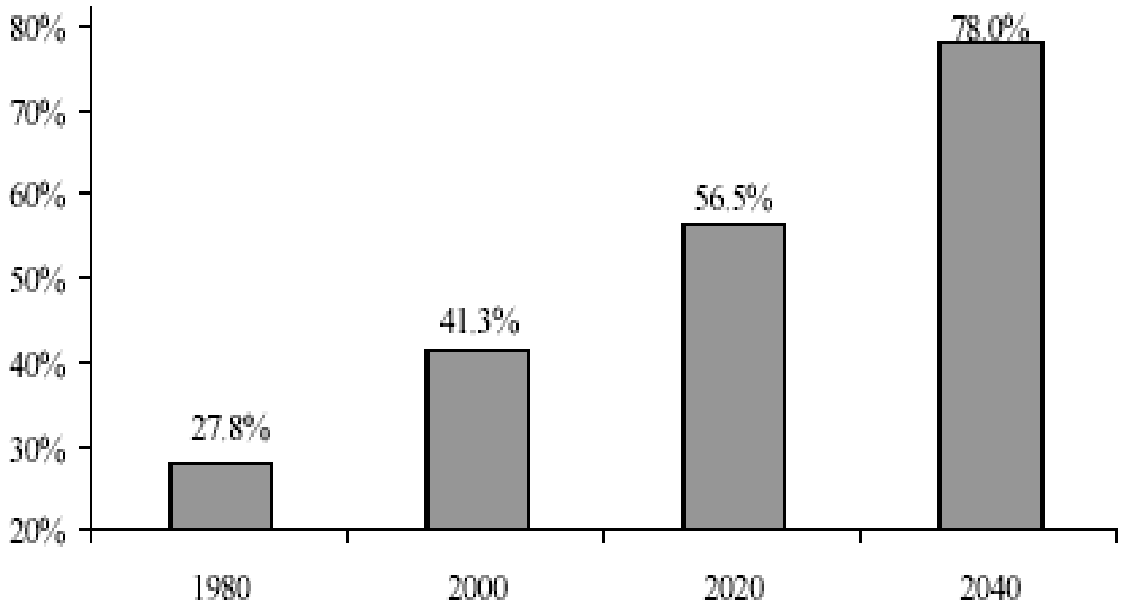
Projected Outlays for Social Security and Medicare Outstrip the Programs' Revenues Sooner Than the Trust Funds Reflect
(By calendar year, as a percentage of GDP)

Other reasons include:
Modernization
Aging equipment
Aging facilities
Increased QOL



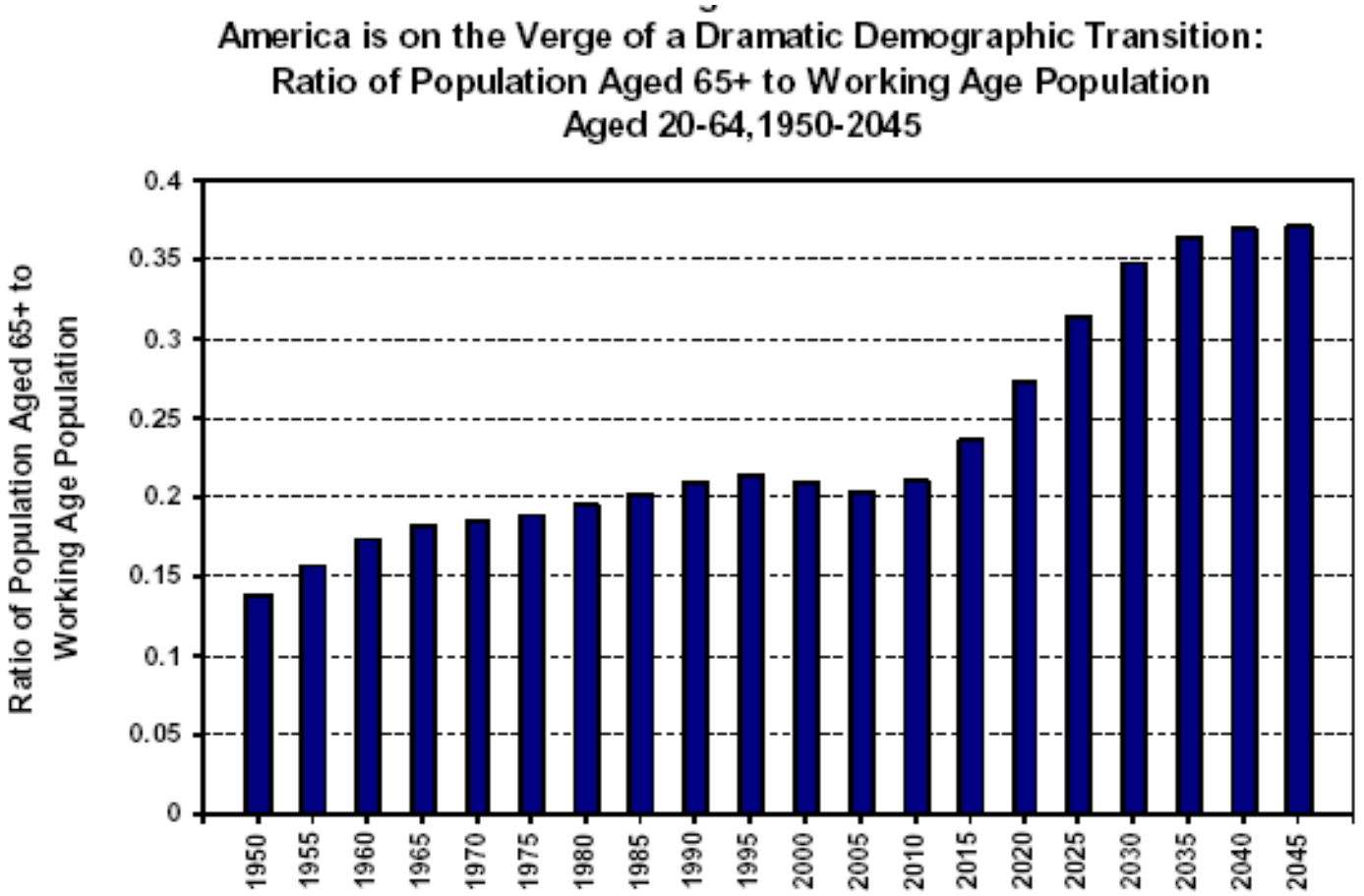
Source: Congressional Budget Office based on Social Security Administration, *The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (March 26, 2002); and Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, *2002 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (March 26, 2002).

Social Security, Medicare and Medicaid as a Share of Total Federal Spending

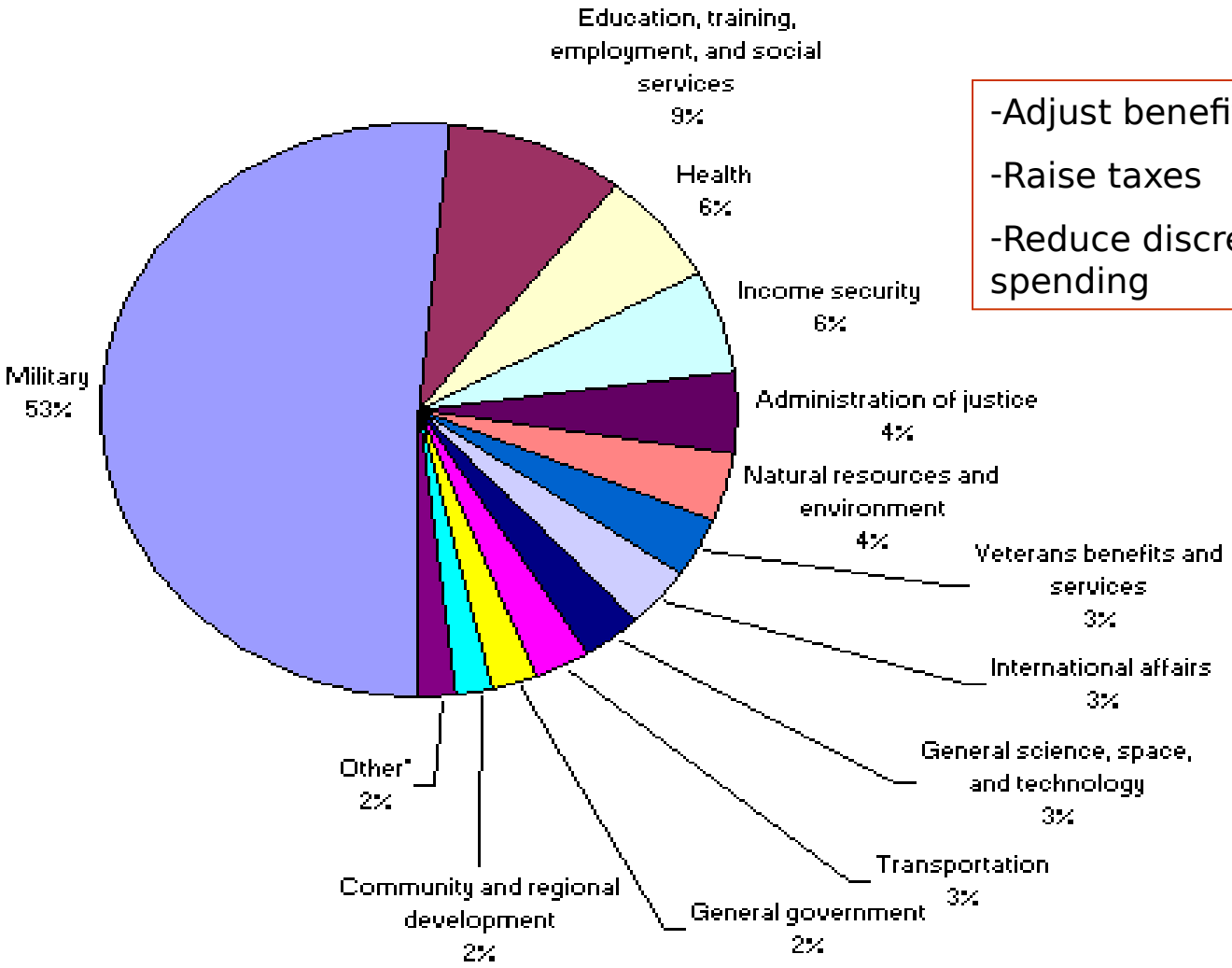


Chris Edwards, Tad DeHaven, ”War Between the Generations: Federal Spending on the Elderly Set to Explode” Cato Institute, Policy Analysis, 16 Sept. 2003, Pg 5

Demographic Sea Change



Politically Radioactive Territory



-Adjust benefits

-Raise taxes

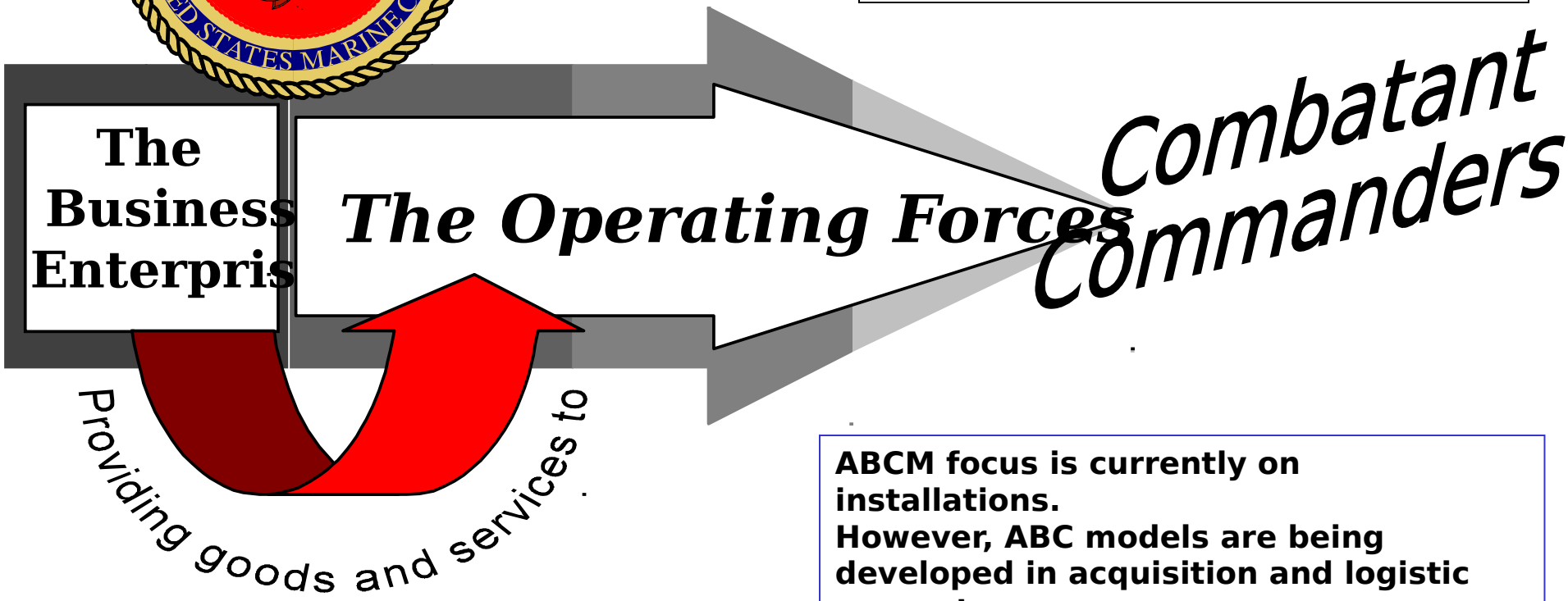
-Reduce discretionary spending

Defense as a share of total discretionary spending

Marine Corps Business Enterprise

USMC Business Enterprise Mode

Components of Business Enterp
- **Acquisition**
- **Logistic Support**
- **Installations**



ABCM focus is currently on installations.
However, ABC models are being developed in acquisition and logistic support.

The Marine Corps is NOT a business. But, support elements can be improved through application of better business practices.

Naval Power 21 (Sea Enterprise)

Signed by SecNav, CMC, CNO in October 2002

- **Optimize resources.**
- **Free resources for warfighting.**
- **Eliminate non-core functions.**
- **Divest/disinvest in legacy systems & platforms.**
- **Scrutinize current year fiscal operations.**
- **Reap efficiencies across all activities.**

This is the Marine Corps commitment under Naval Sea Enterprise.

Navy Sea Enterprise Objective
(well underway)

- "Program readiness" + create hard cash
- Recover $50B:
  - Over 5 years (~8% of five year budget).
  - Increase goal 5% if possible.
- 325 ship Navy.
- Inclusive, Navy-first approach:
  - Organization/functional interests second.
- Vigorously led by CNO, VCNO and BOD.

MCBE Key Responsibilities

- Improve performance and reduce cost
  - Manage business information system
  - Publish cost and performance standards
  - Spur improvement
    - End-to-end process analysis
    - Through benchmarking and best practice analysis

MCBE does for business process what the G-2 does for operations

- Improve management of business reform initiatives
  - Coordinate multiple reform initiatives
  - Establish policy and mitigate impediments

MCBE does NOT implement initiatives.

- Improve in-house business skills
  - Define skills
  - Assist in delivery of training

Initiatives are both transformational & foundational.

The "INNOVATE" Program

- Unify the submission of improvement ideas;
- Provide help in framing and evaluating improvement ideas;
- Remove impediments (dollars, laws, regulations, stovepipes) that constrain implementation of a good idea;
- Provide modest amounts of immediate O&M funding for the most promising ideas that need resources;
- Reward and recognize the people who suggest those that work; and,
- Share with others in the Corps, Department of Navy, and/or DoD those that have proven utility.

Major Initiatives Underway

- **Competitive Sourcing:** **$57M (annual) saved.**
- **Outsourcing:** **NMCI, Food Service, Family Housing.**
- **Reengineering:** **MCCS (FAs), 5>3 echelons of maintenance.**
- **Regionalization:** **GME, 4th/5th element processes (disbursing).**
- **E-Gov:** **MCEITS, GCSS, WAWF, x-BIT**
- **Human Capital:** **Mil-civ conversions, career communities.**
- **Divestiture & Early Retirement:** **AAO-IPT.**

Future Initiatives

- Realign resources to support 2015 MAGTF capabilities.
- Review installation C2.
- Scrub existing/programmed force achieve savings.
- Complete cost and performance information database.
- Manage purchasing strategically.
- Improve capability of workforce to manage business processes.
- Target costing (programmed service levels).
- Mil-civ conversions.
- Life-cycle cost control.
- Eliminate/reduce redundancies and low value activities.

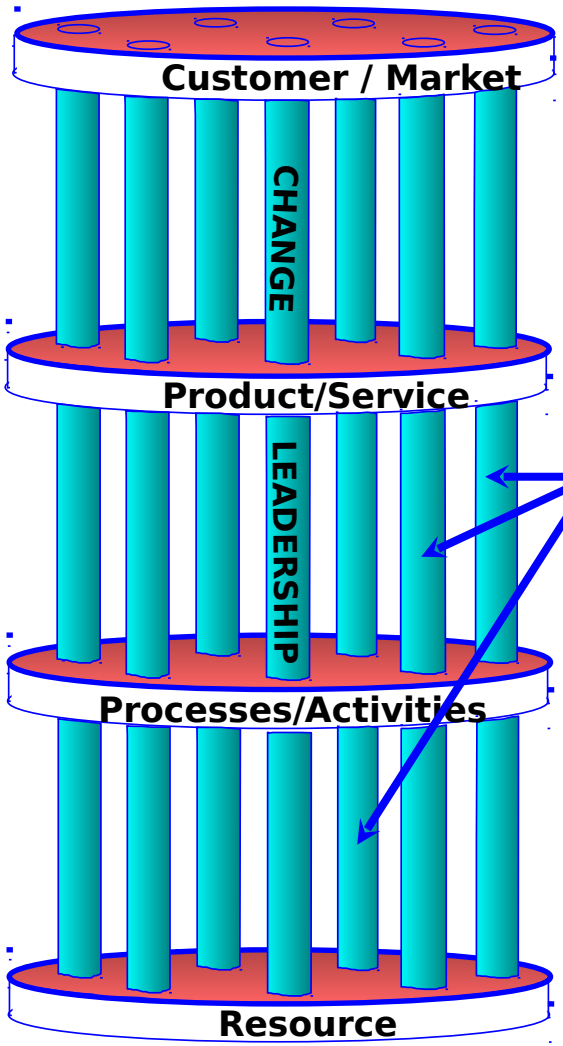
USMC Business Skills

Who

What

How

Cost



Decision Domains

Strategic Management Processes

- **Target Cost Management**
- **Extended Enterprise Management**
- **Asset Management**
- **Capacity Management**
- **Process Management**
- **Integrated Performance**
- **Activity-Based Cost Management**
- **Project Management***
- **Strategic Planning***

*added by USMC

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Important Financial Initiatives

- MARADMIN 320/03
  - Activity Based Resource Management (ABRM) Implementation
    - Requires linkage of Resource Execution to Marine Corps Programming Codes (MCPC)
    - Requires linkage of Resource Execution to approved Business Processes
    - Requires linkage of Performance Metrics to Resources
  - P&R responsible to ensure relationship exists between SABRS Codes and MCPC/Business Process
- Accounting Code Structure
- Shared Data Warehouse
  - Marine Corps Business Information System

Current Base Fiscal Code Weaknesses

- No Direct Link to MCPC
- No Direct Link to Business Process
- Civilian Series recorded against any CAC commands determine/decide
- Too Many Codes – CACs, BEAs, BESAs,
- No Standard on “Locally Assigned” Codes
- No Standard/Specific guidance on Code Usage
- Interpretation of Code assignment/usage different by commands

THERE IS NO STANDARD

Proposed Base Code Structure "End State"

- Proposed Base Financial Code changes will accomplish:
  - Reduce number of codes
  - Standardize use of codes when recording transactions
  - Link Civilian labor to specific MCPC and Business Process
  - Link Execution with Budget and Programming Process
  - Allow creation of Enterprise Wide Activity Resource Model

CAC Adjustment Process

- First Step –
  - Eliminate of non-value codes
- Second Step –
  - Link Civilian Series to Cost Account Codes
- Third Step –
  - Standardize BEA Codes for all Bases

Information from CAC & BEA Together

- Use of both codes will allow for an Enterprise View:

MCPC VIEW BEA BUSINESS PROCESS VIEW

CAC 1C10 CF - Mgmt Fin Resource (7) = $420K
15 Employees @60K DV - Provide Voice (1) = $ 60K
Financial & Personnel Mgmt LT - Provide Transport (1) = $ 60K
630304 = $900K Execution LS - Provide Supply (2) = $120K
FF - Provide Fac Svc (2) = $120K
FE - Provide Environ Svc(2) = $120K

Use of CAC and BEA will allow for true MCPC and Business Process Cost views. The effect is approximating an ABC concept of cost distribution without manual or % distribution in a model. Allows for an "automated" Enterprise Level model solution.

Proposed Changes to FY05 Forces Codes

- Desired “End State” is to link field level forces execution to MCPC codes and position forces for future ABRM initiatives.

- This will be accomplished by:
  - Changing entire CAC structure for Forces
  - Standardizing BEA codes to Unit Type
  - Standardizing BESA codes to process

Forces CAC changes

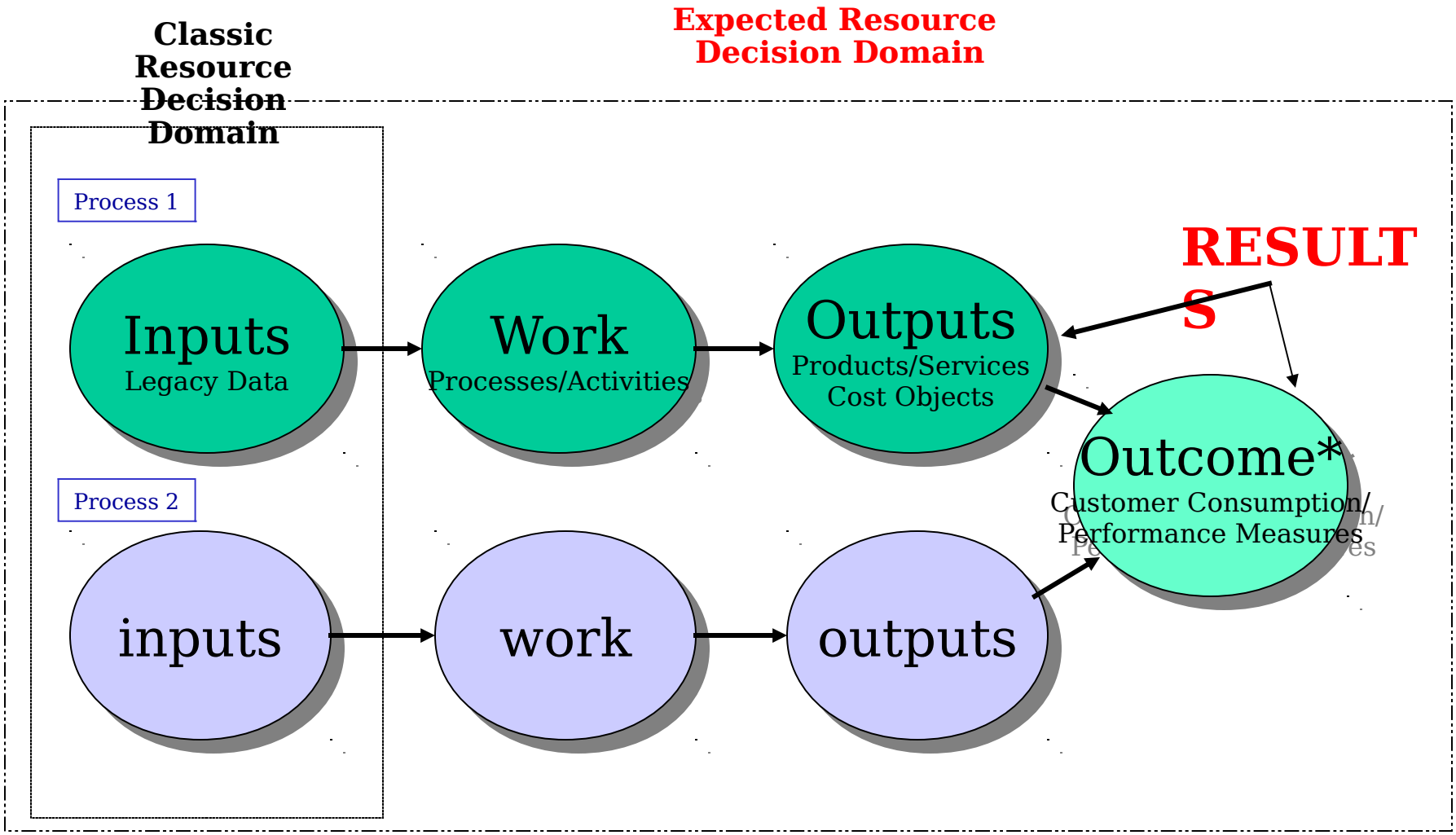
- Currently there are 278 CACs for Forces with no link to MCPC
- Proposal for FY05 is 31 CACs for Normal Garrison training and operations.
- Use of proposed CAC in conjunction with Special Interest Codes for Exercises, DLRs, etc. will link execution to forces MCPCs.

Sample of New Forces CACs

CAC	*TITLE*	*MCPC Default w/no SIC*
G4E1	Maint Ordnance Equip Unit Level	600104 (Ops/Trng)
G4E2	Maint Ord Equip Intermediate	600104 (Ops/Trng)
G3M1	MEF Level Training	600404 (USMC Ex)
G3J1	JCS Level Training	601198 (JCS Ex)
G4T2	Transportation UDP	600604 (UDP Pgm)
G3FS	Formal Schools Trng	601298 (Schools)
G601	IT/Comm Spt/Ops	600104 (Ops/Trng)
G201	Intel Ops/Spt	600104 (Ops/Trng)
G501	Theater Engagement/Future Plan	600104 (Ops Trng)

Business Information

Standard Business Information Model



* Multiple *outputs* contribute to the same *outcome*

The Need for Cost and Performance Information

- **External mandates**:
  - President
  - Congress
  - FASAB
  - SecDef
  - Dramatically increasing budget pressure

Cost and performance information is essential to: performance based contracts, performance based civil service and performance based budgeting.

- **Internal requirements to :**
  - Know full costs of activities
  - Understand how outputs consume activities
  - Understand how outputs to strategic goals
  - Reduce uncertainty in decision-making
  - Create flexibility in resource allocation
  - Support benchmarking and best practice analysis

The Performance Measurement Requirement

- The Federal budget process has been geared to "inputs"
  - Concerned with control of expenditures
  - Fitted standard accounting models
  - Required for Congressional oversight
- Today's expectation (CFO, GPRA, PMA) is to ***also*** measure performance (in terms of "outputs" and "outcomes")
  - Requires different data
  - Required by Government Performance and Results Act
  - Marines using Activity-Based Costing to satisfy
  - Supported by Federal Financial Accounting Standard (FFAS) #4

CFO = Chief Financial Officer's Act,
GPRA = Government Performance and Results Act,
PMA = President's Management Agenda

Federal Cost and Performance Policy
Selected Sources

- 1950 Budget and Accounting Procedures Act
  - Required support of budget justification by information on performance and program/unit costs by organizational units
- 1956 Public Law 84-863
  - Permitted President to submit annual budget information on a cost basis and to include information on program accomplishments
- 1990 Chief Financial Officers Act
  - Established CFO responsibilities for budget/performance integration
- 1993 Government Performance and Results Act
  - Required submission of strategic plans, annual performance plans, and performance reporting
- 1995 Statement of Federal Financial Accounting Standards #4
  - Established managerial accounting concepts and standards
- 1996 Federal Financial Management Act
  - Required full costing
  - Made FASAB standards, concepts and reporting requirements official
- President's Management Agenda

SFFAS #4
Managerial Cost Accounting Standards

1) Accumulate and report costs **of activities** on a regular basis
2) Establish responsibility segments to **match costs with outputs**
3) Determine **full costs of government goods and services**
4) Recognize **costs of goods and services** provided among federal entities
5) Use appropriate cost methodologies to accumulate and **assign costs to outputs**

SFFAS = Statement of Federal Financial Accounting Standards.
Produced by Federal Accounting Standards Advisory Board (FASAB).
Federal Financial Management Act of 1996 required adoption of FASAB standards by federal g

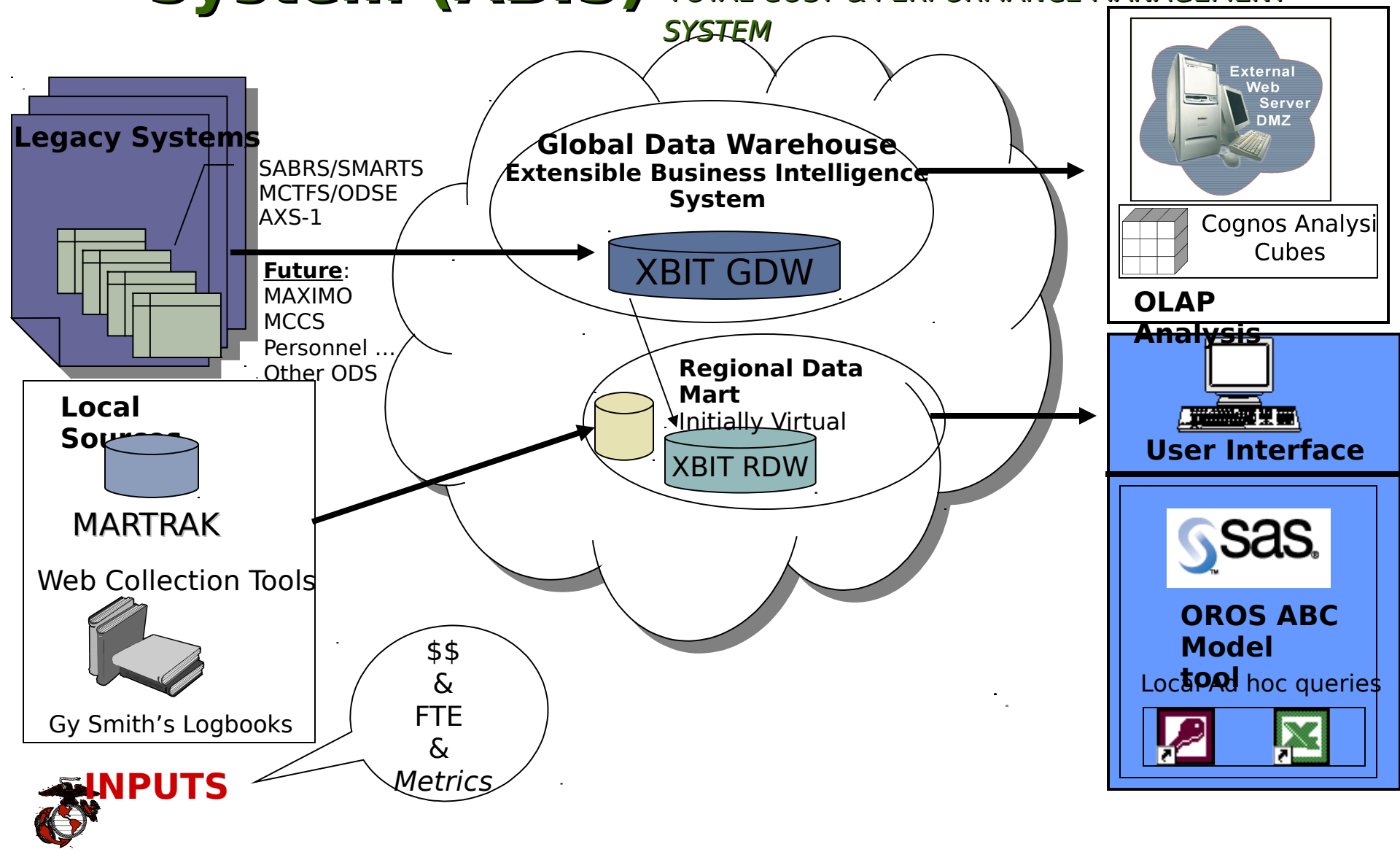
Information Management Challenges

-Streamline data collection

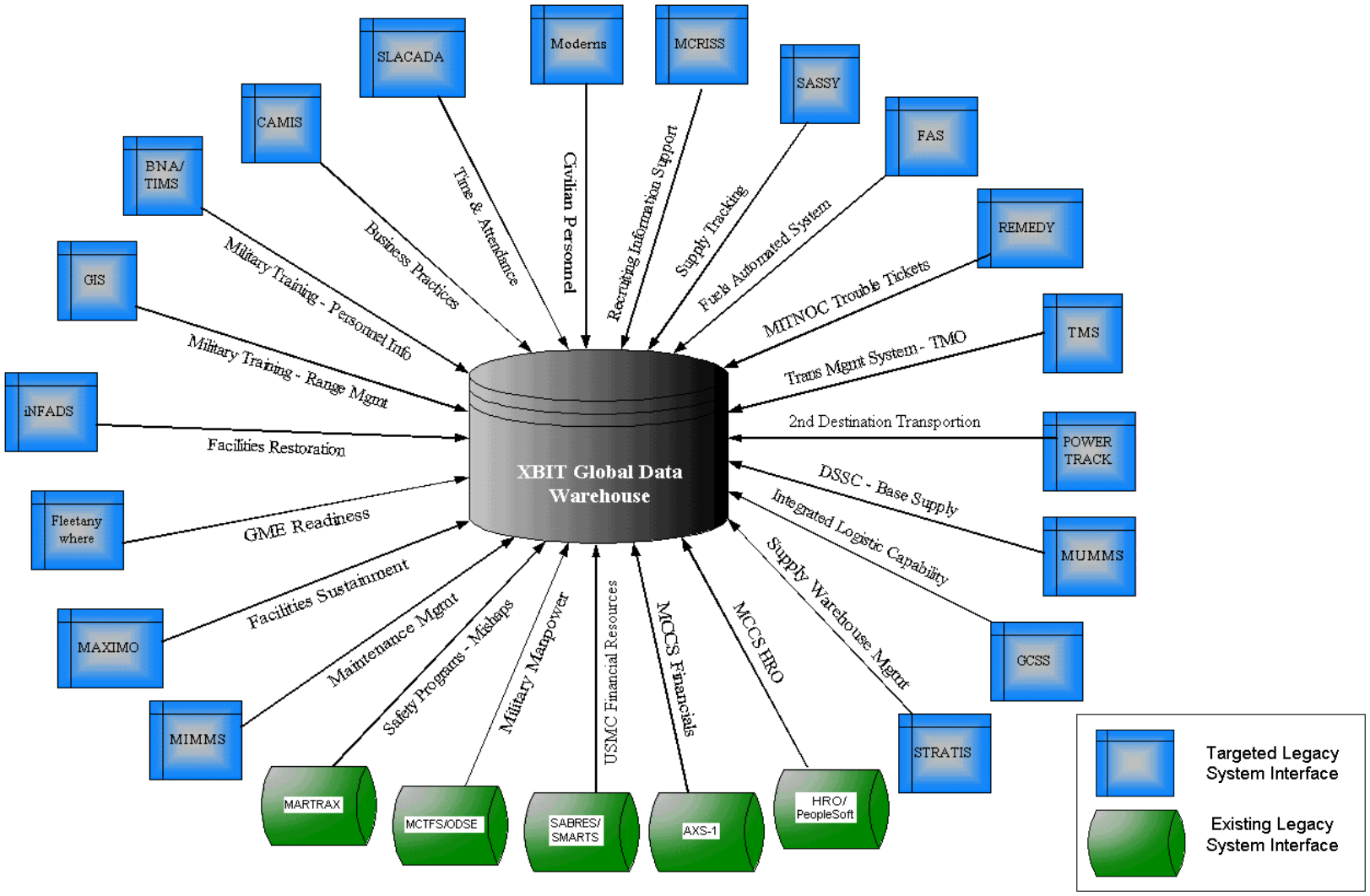
-Establish enterprise data discipline

Activity Based Information System (ABIS)

TOTAL COST & PERFORMANCE MANAGEMENT SYSTEM



ABIS Data Interfaces



Implementation Schedule for Enterprise Total Cost and Performance Management System

(IOC – Sep 05 FOC – Oct 06)

	Identify			Collect			Build TCAP Model and Balanced Scorecard		
	Process Data (Activities, Outputs, Units Of Measure	Financial Data (FTE Data, Accounting System, Etc.	Performance Measures (Strategic Outcomes, Units of Measure)	Process Data (Resource Drivers, Activity Drivers, Unit quantities)	Financial Data (Resource Data from Legacy Systems)	Performance Measures (Scorecard data, Outcome assessments)	Cost Model (Product & Service Unit Cost Data, Benchmark Unit Costs)	Balanced Scorecard (Quantitative Efficiency Data, Qualitative Effectiveness Data)	Analyze Results (Compare Across the Organization)
All Installations & Air Stations	✓	✓	✓	May 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
HQMC	✓	✓	✓	May 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
LOGCOM	✓	✓	✓	May 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
MARFORLANT-HQ MARFORPAC-HQ	✓	✓	✓	May 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
MCRC	Mar 04	✓	Apr 04	Apr 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
MARFORRES	Apr 04	✓	May 04	Jul 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
MCCDC	May 04	✓	Jun 04	Jul 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
TECOM	May 04	✓	Jun 04	Jul 04	✓	Oct 04	Jan 05	Apr 05	Sep 05
Operating Forces– GCE, ACE, CSSE, CE	✓	✓	Jul 04	TBD	✓	TBD	Jan 05	Apr 05	Sep 05
MCSC/MCOM	Jun 04	✓	Aug 04	TBD	✓	Oct 04	Jan 05	Apr 05	Sep 05

Implications on Future Role of Financial Managers

2 Major Points

- Fiduciary role remains imperative
- But
  - The “Business Advocate” role of financial managers is increasing in importance

Holistic Role of the Financial Manager

- Oversight of resources
- Custody of financial records
- Independent review of business operations
- Administration of policies and procedures
- Leadership and service to organization
  - Business judgement and financial expertise
  - Management information that is timely and easy to access

As-is

- Subjectively based resource decisions
  - No benchmarks (over time nor among like units)
  - Expense focused, no link to work or customers
  - “Fair” share, resource focused changes
- Partial cost focus
  - O&MMC only
  - Base costs = $900M
- Data is “close-hold”
- Reactive
  - Concentrated bi-annual process driven by ceilings
- No service level capacity data
- Emphasis on requirements definitions to support budget requests
- Decentralization to a fault
  - Data and service levels are site unique
- Consume 1-7% of total installation resources

To-be

- Fact based resource decisions
  - Benchmarks and best practice analysis
  - Resources linked to work, output, customers, and outcomes
  - Output/demand focused changes
- Full cost view
  - All resources included
  - Base costs = $3B
- Information is shared
  - Internally within Marine Corps
- Proactive
  - Driven by analysis and customer demand
  - Continuous analysis
- Target costing
- More enterprise oversight and standards
  - Data and service levels are more standard
- Consume 1% of total resources

Take-aways

- There are two wars to be fought and won:
  - GWOT
  - Cost war
  - Budget pressure dramatically increases in future.
  - Marine Corps is organizing to confront the “cost war”.
- CMC POM06 guidance;
  - Take bold actions
  - Aggressively pursue initiatives
  - Maximum benefit for resources provided
  - Eliminate low value program/activities/organizations
- The Marine Corps will need its financial managers to expand their contribution beyond fiduciary responsibilities.

Backup Charts

SABRS Financial Information Pointer (FIP)

FIP accumulates & classifies Execution data & identifies:

- Who Executed Funds:
  - SRI/WCI = OPBUD Holder
  - Budget Execution Activity = Major Department/Unit
  - Budget Execution Sub-activity = Further breakdown of BEA
- What Funds were Executed:
  - Fund Code = Appropriation, PEN, Budget AG/SAG
- What Purpose were Funds Executed:
  - Cost Account Code
- What Type of Expense was Incurred:
  - Object Class/Sub-object Class Code

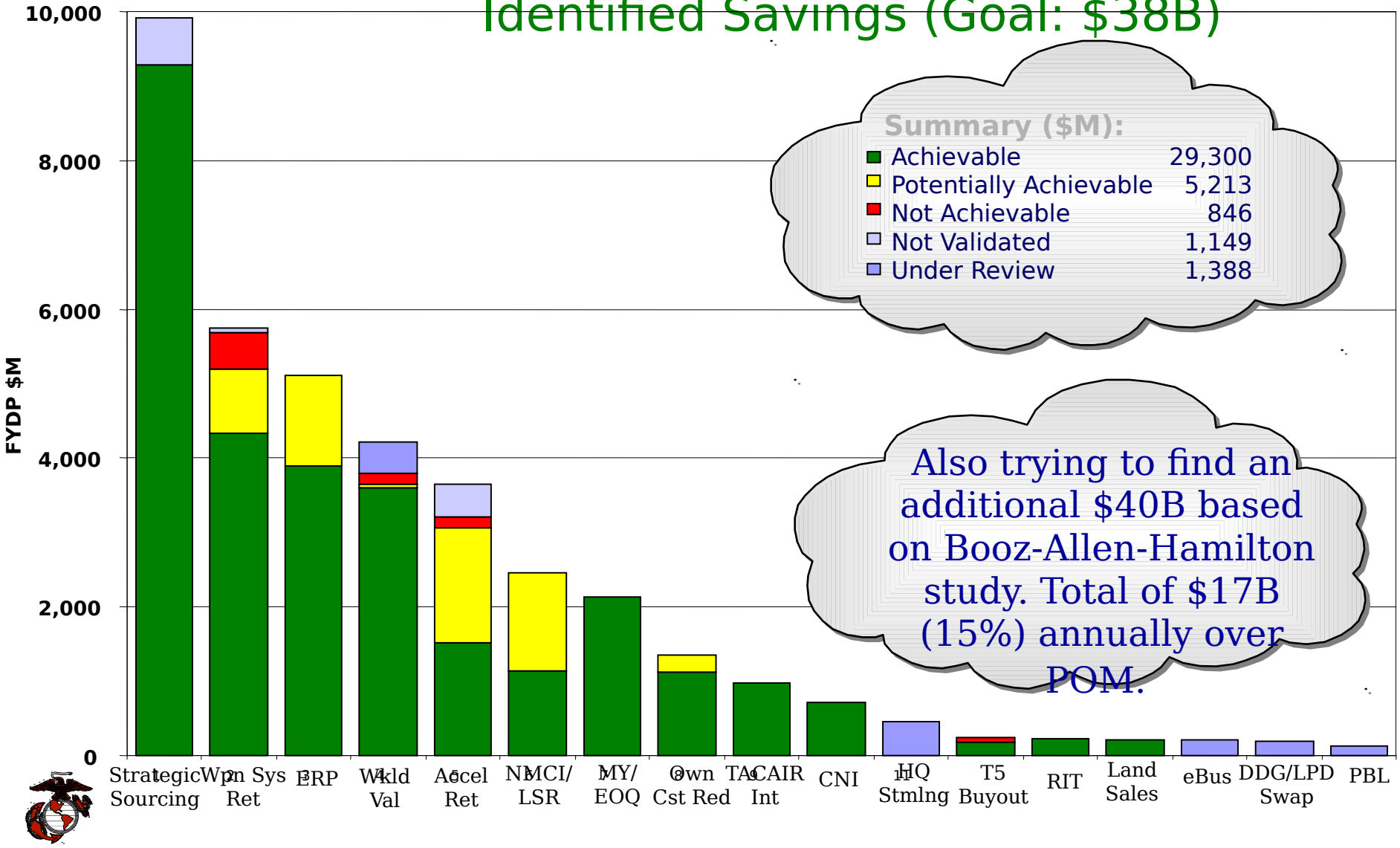
DoN Objectives for 2004

(16 Jan ltr from SecNav, CMC, CNO)

- Shape, streamline and protect the workforce for the future.
- Align organizations & processes to ensure service collaboration & to accelerate force transformation.
- Develop enterprise performance measures.
- Synchronize & align IT programs & investments.
- Create enterprise framework to manage our supply chain & to enhance and modernize our business management process

Navy Sea Enterprise Accomplishments

Identified Savings (Goal: $38B)



Summary ($M):

Achievable	29,300
Potentially Achievable	5,213
Not Achievable	846
Not Validated	1,149
Under Review	1,388

Also trying to find an additional $40B based on Booz-Allen-Hamilton study. Total of $17B (15%) annually over POM.

First Step – Cost Account Codes

- Elimination of non-value codes (FY03 efforts 900+, this effort additional 80)
- Approx 275 Remain for Bases in FY05
  - 85 for MCCS Functions
  - 36 for FSRM Functions
  - 26 for Environmental Functions
  - 128 for all other Base Operations:
    - » Utilities, Transportation, Facilities Services
    - » Communications/IT, Command Spt, Supply
    - » Financial/Personnel Mgmt, Training/Ops
    - » Safety, Air Operations Support

Second Step – Link Civilian Series to Cost Account Codes

- Single largest expense type at bases is Civilian Labor
- Currently labor series assigned to any CAC the commands determine appropriate
- FY05 Link Civilian Series to a specific CAC or series of CACs
  - **All Financial Series (0500) goes to 1C10**
  - **All Supply Series (2000) go to 3 CACs (Ops, Warehouse, Mat Mgmt)**
  - **All Administration Series, I.e. Secretaries, Admin Officers goes to 1A10**
- This change will allow the “true” cost of Financial Mgmt, Supply Mgmt, Admin/Clerical, etc. recording in SABRS with direct link to MCPC.

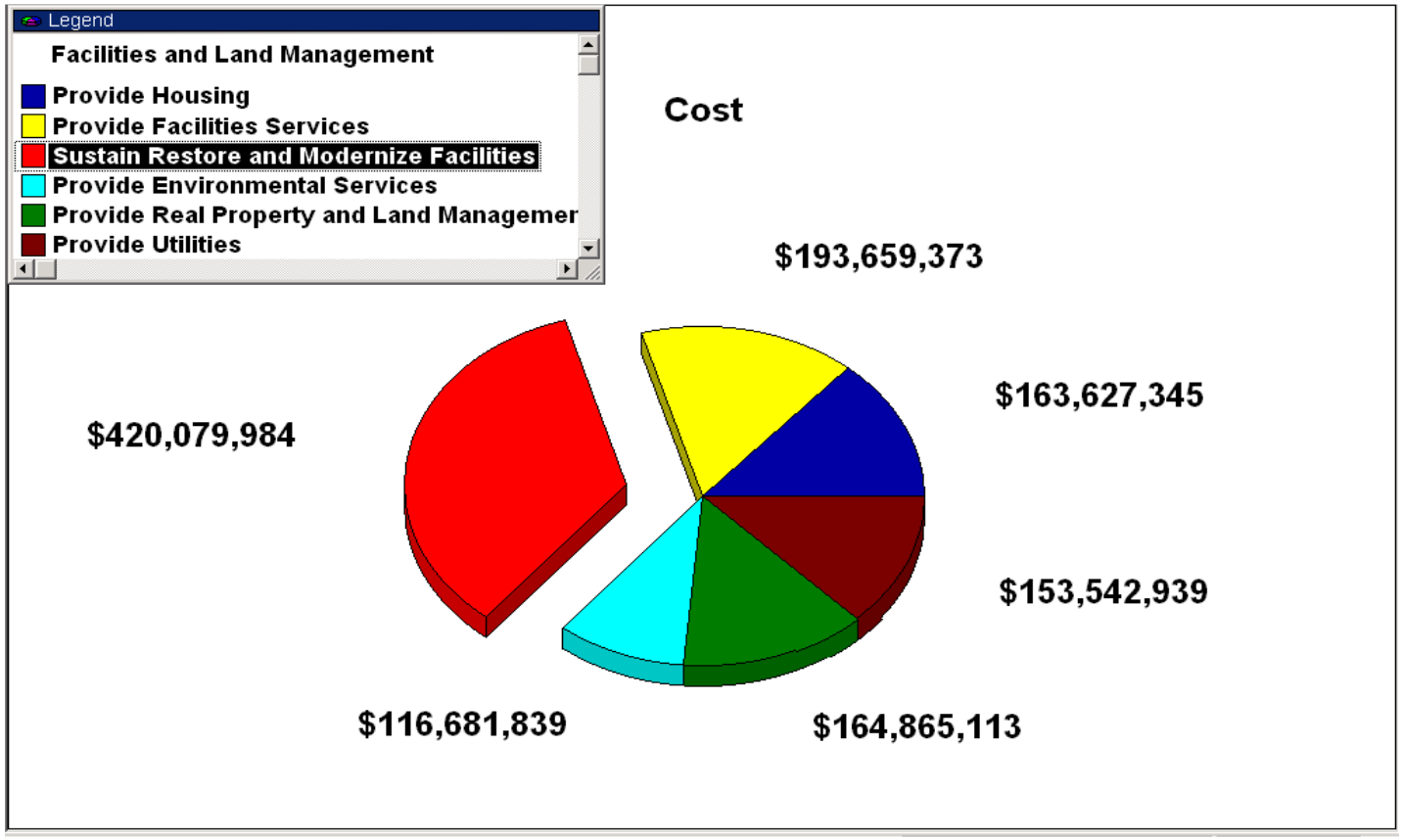
Third Step – Standardize BEA Codes for all Bases

- Series linked to CAC provides an overall MCPC view, but does not identify what process benefited. Ex.
  - Command has 15 Budget Analysts
  - Only 7 Work in Comptroller (Financial Resource Mgmt)
  - 8 Support other functions, I.e Facilities Services, Info Mgmt, etc.
  - CAC to series does not reflect the overhead cost of financial mgmt services to other functions and processes.
- Solution – Standardize Base Budget Execution Activity codes to identify **Business Process**.

Funding Consumption by Process

Facilities and Land Management Costs

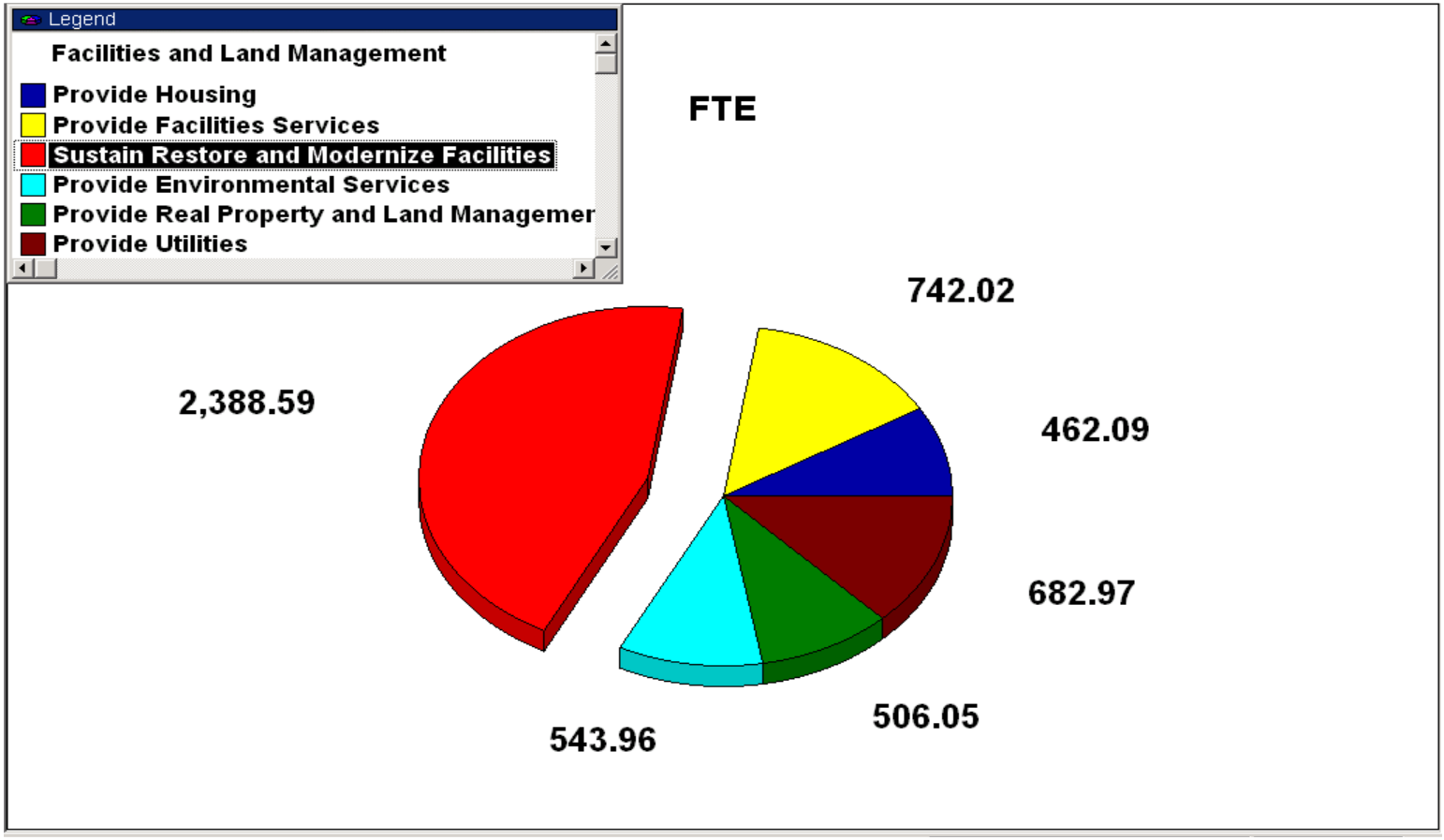
FY 2003 MCBE ABC Cube



Personnel Consumption by Process

Facilities and Land Management FTE

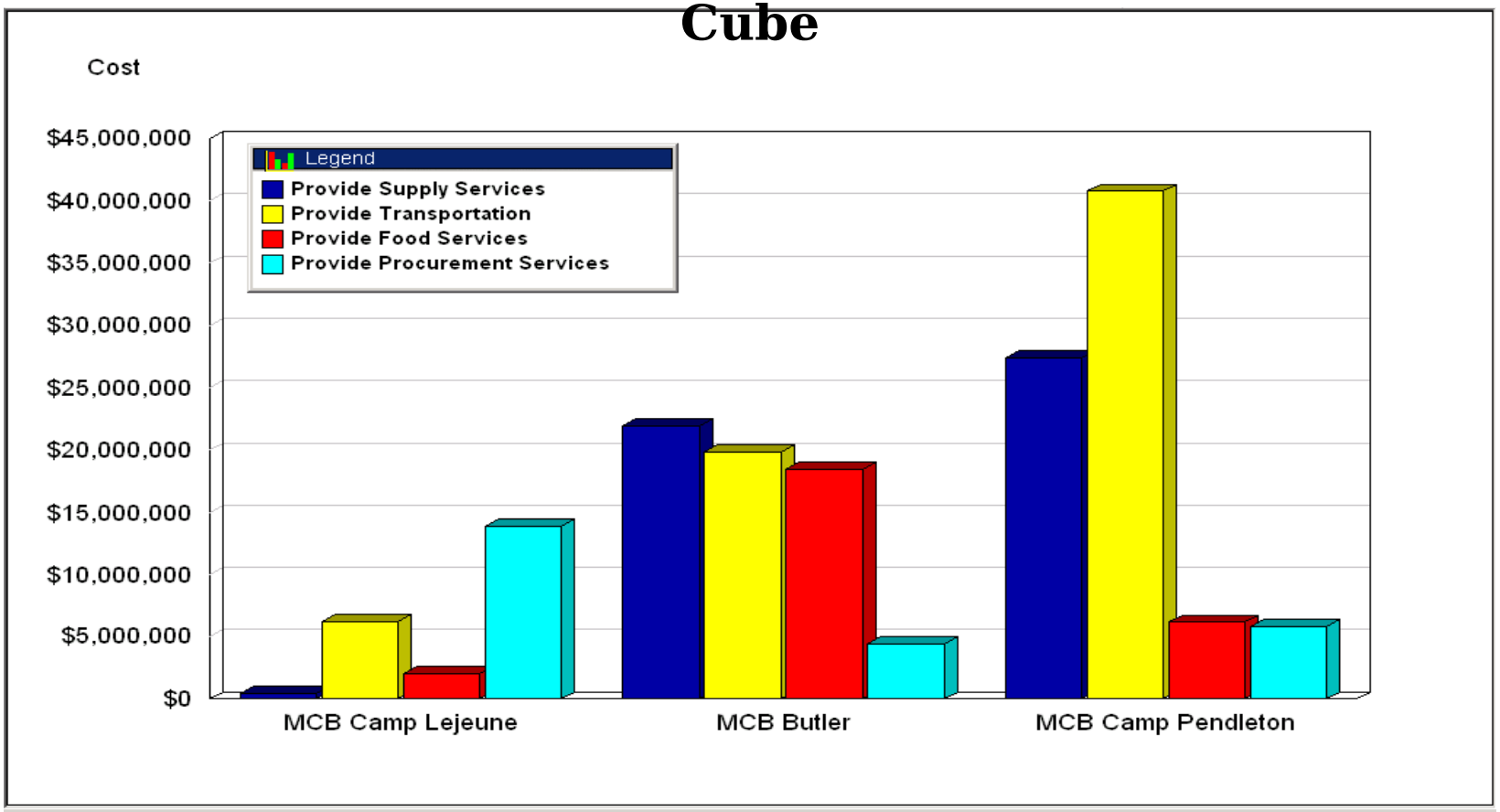
FY 2003 MCBE ABC Cube



Cost Comparison Installations

Logistics Support Costs

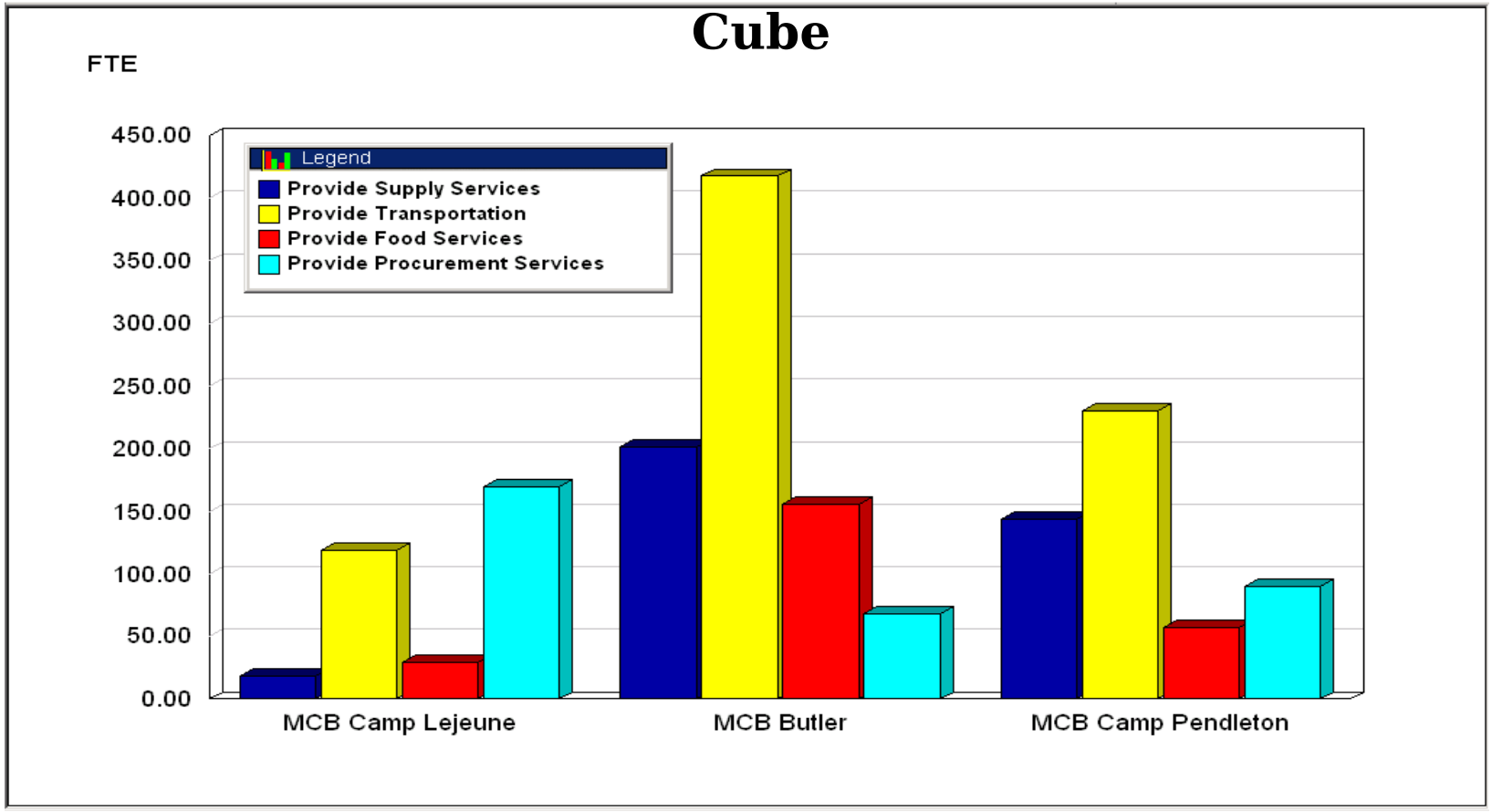
FY 2003 MCBE ABC Cube



Personnel Comparison by Installation

Logistics Support FTE

FY 2003 MCBE ABC Cube



ABIS IT Compliance & Industry Best Practices

- Compliance
  - SYSCOM
    - DITSCAP, SSAA & ATO
    - Clinger Cohen Compliance & C4I Support plan
    - Pending Milestone C decision in April
  - C4
    - NMCI Registration/Waiver and RFS (COTS and GOTS)
  - DoN/DoD/Federal
    - DoN IT Registry
    - BMMP
    - FIPS 140-1
- Industry Best Practices
  - Security
    - Common Criteria EAL4 Security
    - Transport Layer Security TLS 1.0
  - Data Management
    - ETL
    - Meta data registration
    - Dimensional modeling
  - Infrastructure
    - Application Service Provider Model (MARTRAK)
    - Fault tolerant, Clustering and Load Balancing